



CITY OF GAINESVILLE, MISSOURI

YEAR ENDED SEPTEMBER 30, 1999

**From The Office Of State Auditor
Claire McCaskill**

Report No. 2000-29
April 27, 2000
www.auditor.state.mo.us

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

April 2000

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Gainesville, Missouri.

The city improperly claimed and received reimbursement of approximately \$22,000 from a federal grant to which it was not entitled.

The city received federal assistance from the U.S. Department of Justice under the COPS program for three additional full time officers which increased the number of city officers to four.

In February 1999, the city received reimbursement totaling \$43,393 for the period April 1997 through December 1998. During this period, the city employed only two or three officers (including the original officer) but included the salary of the original officer in the reimbursement request. Because the grant agreement required the city to fund 100 percent of the first officer, excess disbursements of approximately \$22,000 were claimed.

City ordinance 97-301 requires all purchases over \$100 to be bid. The City Clerk indicated that a \$500 threshold is used, rather than the \$100 requirement. Although the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained in some instances. Examples include \$26,928 for asphalt, \$26,462 for trash service, \$2,600 for a sewer pump and basin, \$1,938 for surveying, \$1,872 for health insurance, and \$1,410 for water tower inspection and treatment. In addition, the city did not document the proposals received for auditing services.

The city returned funds reserved for the repair of the city's gazebo to an original donor without the consent of all donors. The Mayor and the board of Aldermen do not always review related invoices and supporting documentation prior to signing checks and some invoices did not contain an indication of receipt of goods or services. Mileage or maintenance logs are not maintained for any of the vehicles and equipment owned by the city.

The city purchased a sewer pump and basin for \$2,600 for a citizen to use at his home and allowed the citizen to reimburse the city for the purchase. By purchasing the item in this manner, the citizen may have received it at special city prices and avoided paying sales tax. The city should not allow such expenditures to be incurred using its sales tax-exempt status. Doing so violates the terms of the city's sales tax exemption letter. A similar comment was made by the city's auditor during the previous annual audit.

(over)

Board minutes are not always prepared for closed meetings. Documentation of notice for several of the board meetings could not be located and board minutes were not always signed by the City Clerk and Mayor. The city has not established a formal policy regarding public access to city records.

YELLOW SHEET

Budgets were not prepared in accordance with statutory requirements and the city approved expenditures in excess of budgeted amounts.

The city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semi-annual financial statements.

An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information.

Procedures have not been established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures and to ensure restricted revenues are expended only for their intended purposes. The city pays wage and retirement benefit expenses from the general fund, street fund, water fund, and sewer fund. In addition, the city pays health insurance and worker's compensation benefit expenses from the general fund only. No documentation is available to support the method of allocation used. A similar comment was made by the city's auditor during the previous annual audit.

Law enforcement training fees are not accounted for separately or maintained in a separate fund.

The city maintains twenty-nine bank accounts. Except for separate accounts for Sewerage System Revenue Fund, Bond Reserve Fund, Replacement and Extension Fund, and Sinking Fund accounts required by the revenue bond covenants, it appears that the remaining bank accounts could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled. A similar comment was made by the city's auditor during the previous annual audit.

The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The City Collector prepares monthly utility cards for each customer which reports the number of gallons billed and the maintenance supervisor records meter readings of the city's four water wells, so information is available to perform such reconciliations. A formal review of the city's water and sewer rates has not been performed since 1986.

The city's ordinances are not complete and up-to-date, and ordinances have not been established in all instances where needed.

Controls over receipts of the municipal court are not adequate. Neither the police department nor the municipal division adequately accounts for the numerical sequence and ultimate disposition of parking and traffic tickets issued. Records of convictions on traffic offenses are not always forwarded to the Missouri State Highway Patrol. Court costs due to the state are not disbursed on a timely basis and have not been remitted for the Peace Officer Standards and Training Commission fees. Accounts receivable records are not adequately maintained.

CITY OF GAINESVILLE, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Gainesville
Gainesville, Missouri 65655

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Gainesville, Missouri. Our audit of the city included, but was not limited to, the year ended September 30, 1999. The objectives of this audit were to:

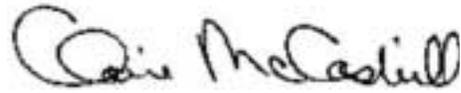
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Gainesville, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive, flowing style.

Claire McCaskill
State Auditor

December 28, 1999 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Karen Laves, CPA
Audit Manager:	David Holtmann, CPA
In-Charge Auditor:	Pam Crawford, CPA
Audit Staff:	Amy Fast

HISTORY AND ORGANIZATION

CITY OF GAINESVILLE, MISSOURI
HISTORY AND ORGANIZATION

The city of Gainesville is located in Ozark County. The city was incorporated in 1896 as a fourth-class city. The population of the city in 1990 was 716.

The city government consists of a mayor and a six-member board of aldermen. The six board members are elected for two-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at September 30, 1999 were:

Elected Officials	Term Expires	Actual Compensation for the Year Ended September 30, 1999	Bond
B. F. McClendon, Mayor	April 2000	\$ 2,653	\$
Laurie J. Miller, Alderwoman	April 2000	0	
Frank Skeeter Stevens, Alderman	April 2000	0	
Donnis Taylor, Alderwoman	April 2000	0	
Gary W. Simmons, Alderman	April 2001	0	
Betty L. Hickey (Zamora), Alderwoman	April 2001	0	
Steve Neal, Alderman (1)	April 2001	0	
<u>Other Principal Officials</u>			
David Ford, City Clerk		11,470	125,000
Anna Whisnant, Deputy City Clerk		6,481	
Alta Young, City Collector		12,205	3,000
Butch Winslow, Police Chief		16,334	

(1) Steve Neal passed away in September 1999. Ves Phelan was appointed to the Board of Aldermen in November 1999.

Assessed valuation and tax rate information for 1999 and 1998 are as follows:

ASSESSED VALUATION

	1999	1998
Real estate	\$ 4,762,700	4,382,578
Personal property	1,396,608	1,143,160
Total	<u>6,159,308</u>	<u>5,525,738</u>

TAX RATE PER \$100 ASSESSED VALUATION

General Fund	\$ 0.47	0.47
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The city also has the following sales tax; rate is per \$1 of retail sales:

	Rate	Expiration Date
General	0.01	None

A summary of the financial activity for the city of Gainesville for the year ended September 30, 1999, is presented on the next page.

Year Ended September 30, 1999

	General Fund	Water Fund	Sewer Fund	Street Fund	Park Fund	Total
RECEIPTS:						
Motor fuel and motor vehicle fees	\$ 0	49,726	0	26,443	0	76,169
Sales taxes	137,274	0	0	0	5,239	142,513
Property taxes	35,474	0	0	0	0	35,474
Interest	16,645	2,022	3,880	25	620	23,192
User fees	0	0	69,408	0	0	69,408
Franchise taxes	4,646	0	0	0	0	4,646
COPS grant	43,393	0	0	0	0	43,393
CDBG	0	5,159	0	0	0	5,159
Other	12,754	269	18	157	0	13,198
Transfer in	0	0	0	7,100	0	7,100
Total Receipts	<u>250,186</u>	<u>57,176</u>	<u>73,306</u>	<u>33,725</u>	<u>5,859</u>	<u>420,252</u>
DISBURSEMENTS:						
Salaries	11,111	30,102	35,112	14,423	0	90,748
Trash contract	26,462	0	0	0	0	26,462
Maintenance and repairs	827	3,174	2,603	1,407	0	8,011
Professional services	10,795	0	0	0	0	10,795
Insurance and bonding	18,844	0	0	0	0	18,844
Postage, shipping and publications	1,632	0	0	0	0	1,632
Supplies	2,760	6,403	4,094	4,944	116	18,317
Utilities	5,069	12,166	17,045	12,823	862	47,965
Bond payment	0	0	8,515	0	0	8,515
Policing	42,919	0	0	0	0	42,919
Fire department	7,103	0	0	0	0	7,103
Airport	1,767	0	0	0	0	1,767
Other	52,880	719	951	420	1,528	56,498
Transfer out	7,100	0	0	0	0	7,100
Total Disbursements	<u>189,269</u>	<u>52,564</u>	<u>68,320</u>	<u>34,017</u>	<u>2,506</u>	<u>346,676</u>
Receipts Over (Under) Disbursements	60,917	4,612	4,986	-292	3,353	73,576
Cash Balance, January 1,	<u>154,890</u>	<u>94,789</u>	<u>171,230</u>	<u>7,308</u>	<u>13,209</u>	<u>441,426</u>
Cash Balance, December 31,	<u>\$ 215,807</u>	<u>99,401</u>	<u>176,216</u>	<u>7,016</u>	<u>16,562</u>	<u>515,002</u>

MANAGEMENT ADVISORY REPORT

CITY OF GAINESVILLE
SUMMARY OF FINDINGS

1. Community Oriented Policing Services (COPS) Grant (page 10)

The city improperly claimed and received reimbursement of approximately \$22,000 from a federal grant to which it was not entitled.

2. Expenditures (pages 10-13)

Bids were either not solicited or bid documentation was not retained for some expenditures. The city has contracted with the same trash service company since 1972 without soliciting proposals from any other providers. City streets were paved without the approval of the board at a cost of \$26,928. The city returned funds reserved for the repair of the city's gazebo to an original donor without the consent of all donors. The Mayor and the Board of Aldermen do not always review related invoices and supporting documentation prior to signing checks and some invoices did not contain an indication of receipt of goods or services. Mileage or maintenance logs are not maintained for any of the vehicles and equipment owned by the city. Christmas bonuses were paid to various city officials and employees and items were purchased through the city for the personal use of a citizen.

3. Board Meetings and Records (pages 13-14)

Board minutes are not always prepared for closed meetings. Documentation of notice for several of the board meetings could not be located and board minutes were not always signed by the City Clerk and Mayor. The city has not established a formal policy regarding public access to city records.

4. Budgeting, Planning and Published Financial Statements (pages 14-15)

Budgets were not prepared in accordance with statutory requirements and the city approved expenditures in excess of budgeted amounts. Semi-annual financial statements are not published. An annual maintenance plan for city streets has not been prepared.

5. Restricted Revenues (pages 15-16)

The allocation of some expenditures from restricted funds is not documented, and a separate accounting for law enforcement training fees has not been established.

6. Accounting Controls and Procedures (pages 16-17)

The city maintains an excessive number of bank accounts. The City Clerk also serves as City Treasurer. Some individuals authorized to sign checks are not bonded.

7. Water and Sewer System Procedures (pages 17-19)

The number of gallons of water billed to customers is not reconciled to the gallons of water pumped by the city. A formal review of the city's water and sewer rates has not been performed since 1986. Sufficient funds have not been transferred to the bond replacement account. Special arrangements made with the lessee of the city's airport hanger were not made in writing. The city's maintenance supervisor is responsible for collection of water and sewer hook-up fees, but is not bonded.

8. Ordinances (pages 19-21)

The city's ordinances are not complete and up-to-date, and ordinances have not been established in all instances where needed.

9. Personnel Records and Policies (pages 21-22)

The city has not formalized its personnel policy in writing. Retirement and health insurance benefits are provided for only one of eight full time employees. Time sheets are not prepared for all city employees.

10. Property Records (page 22)

The city does not maintain complete records to account for all property owned by the city.

11. Municipal Court (pages 23-24)

Controls over receipts are not adequate. Neither the police department nor the municipal division adequately accounts for the numerical sequence and ultimate disposition of parking and traffic tickets issued. Records of convictions on traffic offenses are not always forwarded to the Missouri State Highway Patrol. Court costs due to the state are not disbursed on a timely basis and have not been remitted for the Peace Officer Standards and Training Commission fees. Accounts receivable records are not adequately maintained.

CITY OF GAINESVILLE
MANAGEMENT ADVISORY REPORT

1. Community Oriented Policing Services (COPS) Grant

The city received federal assistance from the U.S. Department of Justice under the COPS program for three additional full time officers which increased the number of city officers to four. Since March 1995, the city has received grant awards totaling \$91,815. Under the grant provisions, the city was required to provide 25 percent of the cost of employing the additional officers until the grant expires on March 31, 2000, in addition, to continuing to provide 100 percent of the cost of employing the original officer.

In February 1999, the city received reimbursement totaling \$43,393 for the period April 1997 through December 1998. During this time period, the city employed only two or three officers (including the original officer) but included the salary of the original officer in the reimbursement request. Because the grant agreement required the city to fund 100 percent of the first officer, excess disbursements of approximately \$22,000 were claimed.

The Board of Aldermen should contact the applicable federal grantor agency to resolve this issue. In addition, the city should ensure future compliance with all federal regulations.

WE RECOMMEND the Board of Aldermen consult with the grantor agency to resolve this issue. In addition, the Board of Aldermen should ensure future compliance with all federal regulations and only claim reimbursement for allowable costs.

AUDITEE'S RESPONSE

We agree with the recommendation and will follow up with the U.S. Department of Justice.

2. Expenditures

A. City ordinance 97-301 requires all purchases over \$100 to be bid. The City Clerk indicated that a \$500 threshold is used, rather than the \$100 requirement. Although the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained in some instances. Examples include \$26,928 for asphalt, \$26,462 for trash service, \$2,600 for a sewer pump and basin, \$1,938 for surveying, \$1,872 for health insurance, and \$1,410 for water tower inspection and treatment. In addition, the city did not document the proposals received for auditing services.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various

approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The city has contracted with the same trash service company since 1972. In December 1998, the city entered into an additional five year franchise agreement for these services without soliciting proposals from any other providers. During the year ended September 30, 1999, the city paid the trash service company \$26,462 (See Part A. above).

We contacted two other local trash services that indicated they were interested in competing for the city's business. The businesses contacted offered lower rates to nearby cities of a similar size, than those being charged by the city's current trash service. Considering the exclusive nature of this contract, the city should ensure all parties are given the opportunity to participate in the city's business. Competitive bidding helps ensure the city receives fair value by contracting with the lowest and best bidders.

- C. Mayor McClendon and Alderman Stevens signed a contract with an asphalt company to pave city streets on April 20, 1999, without board approval. Since the work had been completed and the asphalt company demanded payment, the board met in an emergency session on July 2, 1999, to approve the contract and authorize payment to the asphalt company totaling \$26,928. (See part A. above)

City business should be approved by the board prior to the work beginning.

- D. The city received donations from various citizens six to eight years ago to maintain a gazebo constructed on county property. The city returned the remaining monies, which totaled approximately \$850, to one of the original donors in September 1999, at the donor's request.

These monies were public funds placed in the trust of the city to be used for repairs to the gazebo. The city had no basis for returning the money without the consent of all of the original donors. The city should ensure all funds entrusted for a specific purpose are utilized for their intended use. At a minimum, the city should have required a written agreement with the original donor to ensure the monies would be utilized for repairs to the gazebo.

- E. The City Clerk prepares and signs checks. In addition, the Mayor and a member of the board also sign the checks; however, the Mayor and Board of Aldermen do not review the related invoices or supporting documentation prior to signing the checks. To ensure all expenditures are properly reviewed and approved, the board should designate the Mayor or a board member to review the related invoices before the checks are signed.
- F. Receipt of goods or services is not always indicated on the invoice prior to an expenditure being approved for payment. The documentation of the receipt of goods or services is necessary to ensure the city actually received the items or services being paid.
- G. The city does not maintain mileage or maintenance logs for any of the seven (7) vehicles and equipment owned by the city. Mileage logs are necessary to document appropriate use of the vehicles and to support gasoline charges. The mileage and maintenance logs

should include the purpose and destination of each trip, the daily beginning and ending odometer readings, and the operation and maintenance costs. These logs should be reviewed by a supervisor to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to gasoline purchases and other maintenance charges.

- H. The Mayor and all city employees received a \$43 Christmas bonus in December 1999. The bonuses appear to represent additional compensation for services previously rendered and violate Article III, Section 39 of the Missouri Constitution. Attorney General's Opinion No. 72, 1955 to Pray, states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."
- I. The city purchased a sewer pump and basin for \$2,600 for a citizen to use at his home and allowed the citizen to reimburse the city for the purchase. (See Part A. above) By purchasing the item in this manner, the citizen may have received it at special city prices and avoided paying sales tax. The city should not allow such expenditures to be incurred using its sales tax-exempt status. Doing so violates the terms of the city's sales tax exemption letter. A similar comment was made by the city's auditor during the previous annual audit.

WE RECOMMEND the Board of Aldermen:

- A. Revise or follow the city ordinance regarding formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- B. Ensure proposals are solicited for trash services from all providers in the future.
- C. Ensure contracts are approved by the board.
- D. Maintain funds entrusted to the city for their specific purpose.
- E. Designate the Mayor or a board member to review all supporting invoices before the checks are signed.
- F. Ensure the receipt of goods or services is indicated on invoices prior to approving them for payment.
- G. Maintain mileage and maintenance logs for all city vehicles and equipment.
- H. Discontinue paying Christmas bonuses to the Mayor and employees.
- I. Prohibit individuals from purchasing items for personal use through the city and with the city's sales tax exemption.

AUDITEE'S RESPONSE

A,B,

- F, H & I. We agree with these recommendations.*
- C. We are working to open the lines of communication between all of the board members.*
- D. We agree with the recommendation and will ensure written agreements are entered into in the future regarding restricted monies.*
- E. We are currently reviewing all invoices.*
- G. The police department is currently maintaining vehicle logs. We will develop logs for our other vehicles.*

Mayor McClendon and Alderman Stevens provided a separate response for Part C:

- C. The board had given approval up to \$30,000 for paving roads. We completed the project for several thousand dollars less.*

3.	Board Meetings and Records
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- A. The Board of Aldermen frequently hold closed meetings. Minutes are not always prepared to document matters discussed in closed meetings, and it is not clear that the final disposition is made public. Section 610.021, RSMo Cumulative Supp. 1999, requires certain matters discussed in closed session to be made public upon final disposition. In addition, closed session minutes are necessary to document and record official board decisions and actions affecting city government and the public, and to ensure compliance with the Sunshine Law.
- B. Documentation that proper notice was given for several of the Board of Aldermen meetings held could not be located.
- State law requires all public governmental bodies to give advance notice of meetings either through the news media or posting notice of the meeting. The notice is to include the time, date, and place of the meeting, as well as the tentative agenda. To document compliance, the city clerk should document the date, time, and location the notice was posted and retain this with the minutes.
- C. The board minutes are prepared by the City Clerk, but some minutes were not signed. The board minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings. A similar comment was made by the city's auditor during the previous annual audit.
- D. The city does not have a formal policy regarding public access to city records. A formal policy would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact, provide an address to mail requests for access to records, and establish a cost to provide copies of public

records. Section 610.023, RSMo Cumulative Supp. 1999, lists requirements for making city records available to the public.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes are prepared for all closed meetings, and the final disposition of applicable matters discussed at closed meetings is made public.
- B. Retain adequate supporting documentation to demonstrate that the board provided proper notice for each of its meetings.
- C. Ensure the board minutes are signed by the preparer and Mayor or a designated member of the board to attest to their accuracy.
- D. Establish formal written policies and procedures regarding public access to city records.

AUDITEE'S RESPONSE

We agree with these recommendations.

4. Budgeting, Planning, and Published Financial Statements

- A. The budgets for the years ended September 30, 2000 and 1999 do not include a budget message, actual (or estimated for years not yet ended) revenues and expenditures for the two preceding budget years, or the beginning and the estimated ending available resources. The budgets showed only anticipated revenue and expenditure activity. Section 67.010, RSMo 1994, requires the preparation of an annual budget which shall present a complete financial plan for the ensuing budget year.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual expenditures. A complete budget should include separate revenue and expenditure estimations, and include the beginning available resources and a reasonable estimate of the ending available resources. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years.

- B. Actual expenditures exceeded budgeted expenditures for the General Fund for the years ended September 30, 1999 and 1998, by \$5,846 and \$36,298, respectively. In addition, actual expenditures exceeded budgeted expenditures for the Park Fund for the year ended September 30, 1998, by \$2,407.

Section 67.040, RSMo 1994, indicates a political subdivision shall not increase the total amount authorized for expenditure from any fund, unless the governing body adopts a resolution documenting the reasons making the increase necessary and approves or adopts a resolution or ordinance to authorize the expenditures.

- C. The city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six month period. In addition, Section 79.165, RSMo 1994, states the city cannot legally disburse funds until the financial statement is published.
- D. An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

WE RECOMMEND the Board of Aldermen:

- A. Prepare budgets that contain all information as required by state law.
- B. Periodically compare year-to-date expenditures with budgeted amounts to monitor the city finances and to ensure actual expenditures do not exceed budgeted amounts.
- C. Publish semi-annual financial statements as required by state law.
- D. Prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

We agree with these recommendations.

5.	Restricted Revenues
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- A. Procedures have not been established to ensure expenditures are properly allocated among the various funds benefitting from the expenditures and to ensure restricted revenues are expended only for their intended purposes. The city pays wage and retirement benefit expenses from the general fund, street fund, water fund, and sewer fund. In addition, the city pays health insurance and worker's compensation benefit expenses from the general fund only. No documentation is available to support the method of allocation used. A similar comment was made by the city's auditor during the previous annual audit.

Time sheets are prepared by some employees, indicating the total hours worked. However, no documentation is maintained to separately indicate the number of hours related to streets, water and sewer, or other activities.

Allocation of expenses is necessary for the city to ensure the water and sewer rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. Furthermore, the uses of state motor vehicle-related revenues, are limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

- B. Law enforcement training fees are not accounted for separately or maintained in a separate fund. During the year ended September 30, 1999, the city received approximately \$72 in training fees and identified no training-related expenses. Section 590.140, RSMo Supp. 1999, requires law enforcement training fees to be used only for the training of law enforcement officers. The city should determine law enforcement training fees collected and transfer the fees to a separate fund or maintain a separate accounting of the funds to ensure the fees are used in accordance with state law.

WE RECOMMEND the Board of Aldermen ensure all allocations of expenditures are supported by adequate documentation and establish a separate accounting for law enforcement training fees to ensure compliance with the Missouri Constitution and state law.

AUDITEE'S RESPONSE

We agree with these recommendations.

6. Accounting Controls and Procedures
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- A. The city maintains twenty-nine bank accounts. Except for separate accounts for Sewerage System Revenue Fund, Bond Reserve Fund, Replacement and Extension Fund, and Sinking Fund accounts required by the revenue bond covenants, it appears that the remaining bank accounts could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled. A similar comment was made by the city's auditor during the previous annual audit.
- B. The City Clerk also serves as the City Treasurer, and this individual is responsible for most of the record keeping duties of the city. These duties include preparing invoices for payment, preparing and co-signing checks, performing bank reconciliations, and preparing monthly financial reports. Neither the board nor other personnel independent of the cash custody and record keeping functions provide adequate supervision or an independent review of the work performed by the City Clerk. A similar comment was made by the city's auditor during the previous annual audit.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. This situation does not allow the segregation of duties necessary for

a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls could be improved by segregating duties to the extent possible. If proper segregation of duties is not feasible, the Board of Aldermen should, at a minimum, require someone having no access to cash and no record keeping responsibilities receive and review the bank statements and bank reconciliations.

- C. The City Clerk, the Mayor, and one of the Aldermen are authorized to sign checks; however, the City Clerk and City Collector are the only city officials that are bonded. In addition, the deputy City Clerk occasionally collects city receipts in the absence of the City Collector. The City Clerk indicated the city had a blanket bond to cover all employees and board members; however, the city's bonding company confirmed that only the City Collector and City Clerk were bonded. Failure to bond all persons with access to assets exposes the city to risk of loss.

WE RECOMMEND the Board of Aldermen:

- A. Consider consolidating the city's twenty-nine bank accounts.
- B. Provide for an adequate segregation of duties or the performance of independent reconciliations and reviews of the accounting records.
- C. Obtain bond coverage for all persons with access to city assets.

AUDITEE'S RESPONSE

We agree with these recommendations.

7. Water and Sewer System Procedures

- A. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. The City Collector prepares monthly utility cards for each customer which reports the number of gallons billed and the maintenance supervisor records meter readings of the city's four water wells, so information is available to perform such reconciliations.

During July 1999 through October 1999, the gallons of water pumped exceeded the total gallons billed by 10,496,820 gallons, or 49 percent. The city's maintenance supervisor indicated that he believed the loss was due to local fire departments filling fire trucks, water used at the city park and airport hanger where water meters are not read, and water used at some local businesses where the water meters are buried under asphalt.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to the gallons of water billed on a monthly basis and investigate significant differences. The Public

Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

- B. The city has not performed a formal review of the adequacy of the water and sewer rates since 1986. The city's audited financial statements show an operating loss of approximately \$80,000 in the Water and Sewer Funds during the year ending September 30, 1998.

City ordinance 86-421 requires water and sewer user charges to be reviewed every two years. Water and sewer fees are user charges which should cover the cost of providing the related services, but rates should not be set at a level which results in excessive fund balances. The city should perform a detailed review of its water and sewer costs, including depreciation and debt service costs, and set rates to cover the total costs of operation.

- C. Revenue bond covenants and city ordinance 86-421 require the bond replacement account to be funded in the amount of \$5,000 annually from the operation and maintenance account. The balance of the bond replacement account at September 30, 1999, should be \$80,612. While the city has sufficient funds in other water and sewer accounts the balance in the bond replacement account was only \$10,102. The city should make appropriate transfers and ensure future funding requirements are made. A similar comment was made by the city's auditor during the previous annual audit.

- D. The city does not perform monthly reconciliations of total amounts billed, payments received, and amounts remaining unpaid for water and sewer services.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliation should be retained to support conclusions and any corrections made, and to facilitate independent reviews.

- E. The city leases its airport hanger to a local citizen for \$1,200 annually. A water meter is maintained which monitors water used inside the airport hanger; however, this individual's meter is not normally read by the maintenance department, and water and sewer usage is not billed. The Mayor indicated special arrangements were made with this individual to not pay for water and sewer use. A meter reading on November 4, 1999, showed 15,110 gallons of water usage since the last documented meter reading performed by the maintenance department in April 1999. The city does not have a written lease agreement with this individual addressing this arrangement or lease payments.

The city should review the propriety of this special water and sewer usage arrangement and document the basis for this arrangement. Any billing arrangements which differ from the city's standard rates and procedures should be supported by written agreements between the applicable parties. In addition, lease agreements should be supported by written agreements between the applicable parties.

- F. Although the maintenance supervisor is responsible for collection of water and sewer hook-up fees, this individual is not bonded. Failure to bond city employees that handle monies exposes the city to the risk of loss.

WE RECOMMEND the Board of Aldermen:

- A. Compare the gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences.
- B. Review water and sewer rates periodically to ensure revenues are sufficient to cover all costs of providing this service.
- C. Transfer sufficient funds to the bond replacement account as required by the bond covenants and city ordinance.
- D. Perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts.
- E. Review the special arrangements made with airport hanger lessee, and enter into written lease agreements.
- F. Consider obtaining bond coverage for the maintenance supervisor.

AUDITEE'S RESPONSE

- A. *We agree that these differences need to be investigated and corrected.*
- B. *We will review the water and sewer rates and take appropriate action.*
- C-F. *We agree with these recommendations.*

8. Ordinances

- A. Many of the city's ordinances are old and outdated. The city maintains an index of all ordinances passed by the city; however, several ordinance numbers are not included, several ordinances included on the index were missing, and ordinance numbers are not assigned consecutively. In addition, several ordinances have not been signed and/or dated by the Mayor. Section 79.130, RSMo 1994, states "no bill shall become an ordinance until it shall have been signed by the mayor or person exercising the duties of the mayor's office, or shall have been passed over the mayor's veto".

Since the ordinances represent legislation passed by the Board of Aldermen to govern the city and its residents, it is important that the city's ordinances be maintained in a complete, well-organized, and up-to-date manner.

- B. The city has not adopted ordinances to establish the compensation and duties of all of the city's elected officials and the City Clerk. Sections 79.270 and 79.290, RSMo 1994, require the compensation and duties of city officials and employees to be set by ordinance.
- C. During our review of salary and expenses paid to the Mayor, the following concerns were noted:

1. The city has not updated the ordinance related to the salary and expenses of the Mayor. During the year ended September 30, 1999, the Mayor was paid \$2,653. In addition, the Mayor received an expense allowance of \$100 per month. Documentation was not required to support the expense allowance and it was not reported on the Mayor's W-2 forms for 1999 and 1998.

City ordinance 63, dated April 10, 1973, established the annual salary of the Mayor at \$1,200 and reimbursement for all expenses. In addition, Internal Revenue Code (IRC) Ruling 12-110 specifically requires expense allowances that are not accounted for to the employer to be considered gross income. To comply with the IRC, all compensation paid to city officials/employees should have the required payroll taxes withheld and be properly reported.

2. The Mayor receives a cost of living raise annually. Article VII, Section 13 of the Missouri Constitution states that compensation to municipal officers shall not be increased during a term of office. In addition, Section 79.270, RSMo 1994, states that the salary of a municipal officer shall not be changed during the time for which he was elected or appointed.

- D. The city has not prepared ordinances to document the approved tax levy for each year. In addition, the Board of Aldermen has not held public hearings on the city's proposed property tax rates. Section 94.210, RSMo 1994, states the board of aldermen shall fix the annual rate of tax levy by ordinance for each tax year. Section 67.110, RSMo 1994, requires each governing body to hold at least one public hearing prior to approval of the proposed tax rates at which citizens may be heard. This section also provides guidance on what information is to be included at the public hearing.

WE RECOMMEND the Board of Aldermen:

- A. Ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required.
- B. Establish the duties and compensation of all city officials and employees by ordinance as required by statute.
- C.1. Ensure city ordinances outlining officials' salaries are properly updated and wages are properly reported on the Mayor's W-2 forms. In addition, the city should file amended W-2's to include expense allowances.
2. Ensure the salaries of the city's elected officials are not changed during their term of office.
- D. Hold public hearings on proposed property tax rates, and establish the annual tax levy by ordinance as required by law.

AUDITEE'S RESPONSE

A&B. We agree our ordinances need to be reviewed and updated.

C&D. We agree with these recommendations.

9.**Personnel Records and Policies**

- A.1. The city has not formalized its personnel policy in writing. Although a city ordinance outlines personnel policies pertaining to vacation leave, additional areas to be addressed in a personnel policy may include other benefits offered to employees such as retirement and health benefits, hiring and firing procedures; description of job duties and qualifications for various positions; regular work hours and official holidays; maintenance of attendance records; and fringe benefits.

A comprehensive personnel policy manual would provide guidance and control for the effective and consistent management of the city's employees.

2. The city provides retirement and health insurance benefits to only one of eight full time employees. The retirement contract requires the city to provide retirement benefits to all eligible employees that work over 1,500 hours per year. Additionally, since health insurance is only provided to one full time employee, the benefit could be considered taxable for income purposes.

To ensure equitable treatment of all employees, the city should establish formal guidelines for providing retirement and health insurance benefits to all eligible employees.

- B. The City Clerk, Maintenance Supervisor, Police Chief, and police officers do not prepare time sheets. Time sheets are necessary to document hours actually worked, substantiate payroll expenditures, and provide the board with a method to monitor hours worked. In addition, a portion of the police officers' salaries are reimbursed to the city from the federal government through a COPS FAST grant. The grant requires payroll expenditures to be supported by time and attendance records.

To support payroll expenditures and ensure compliance with grant requirements, the city should require all employees to prepare detailed time sheets which are reviewed and approved by a supervisor.

WE RECOMMEND the Board of Aldermen:

- A.1. Prepare and maintain a personnel policy manual to provide documentation of the city's procedures and policies.
2. Establish formal guidelines for providing retirement and health insurance benefits to all eligible employees.
- B. Require all city employees to prepare time sheets which are approved by a supervisor.

AUDITEE'S RESPONSE

- A. *The city agrees with the recommendation. We are in the process of defining the specific duties of each employee, and will address other areas related to employment in the future.*
- B. *We agree with the recommendation.*

10.

Property Records

The city does not maintain complete records to account for all property owned by the city. Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The record should include a detailed description of the assets including the name, make and model numbers, an asset identification number, the physical location of the assets, and the date and method of disposition of the assets when disposed of. In addition, all property items should be identified with a tag or other similar device, and the city should conduct annual inventories.

Adequate general fixed asset records are necessary to secure better internal control and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property.

WE RECOMMEND the Board of Aldermen ensure property records are maintained which include all pertinent information for each asset such as tag number, description, cost, acquisition date, location, and subsequent disposition. Additionally the city should properly tag, number, or otherwise identify all applicable city property and conduct an annual inventory.

AUDITEE'S RESPONSE

We agree with the recommendation.

11.

Municipal Court

- A.1. The Court Clerk accepts cash, checks, and money orders for the payment of fines, court costs, and bonds. The Court Clerk does not consistently record the method of payment on receipt slips. To ensure receipts are deposited intact, the method of payment should be indicated on all receipt slips. The composition of receipt slips issued should be reconciled to the composition of deposits.
2. Receipt slips are not always issued on a timely basis nor are the proceeds transmitted to the city intact or on a timely basis. For example, two money orders totaling \$90 and dating back to 1994 and 1995 were not issued a receipt slip and transmitted to the city until September 1999. The deputy court clerk indicated she had found these two receipts in old court files. To adequately safeguard receipts and reduce the risk of loss, theft, or misuse of funds, deposits and transmittals should be made intact daily or when accumulated receipts exceed \$100.
3. Checks and money orders are not restrictively endorsed until deposits are prepared by the city. To reduce the risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

- B. Neither the police department nor the municipal division maintains adequate records to account for parking and traffic tickets issued and their ultimate disposition. Without a proper accounting of the numerical sequence and ultimate disposition of parking and traffic tickets, the police department and the municipal division cannot be assured all tickets issued are submitted to the court for processing.

During the audit, nine of the tickets selected for review could not be located. Since tickets and supporting documentation could not be reviewed, the court can not determine the disposition of these tickets and whether they were properly reflected in the records. All municipal court records should be adequately retained in accordance with Supreme Court Administration Rule 8.

- C. The Court Clerk indicated that he had not forwarded the required records of convictions on traffic offenses to the Missouri State Highway Patrol (MSHP) for several years. Section 302.225, RSMo Cumulative Supp. 1999, requires any plea or finding of guilty on traffic violations under the laws of the state, county, or municipal ordinance to be forwarded to the MSHP within ten days of the conviction date.
- D. Court costs which are due to the state are transmitted to the city. The city does not always disburse these monies to the state on a timely basis. Court costs collected in February 1997 through February 1998 were not disbursed to the state until February 1998, and court costs collected in March 1998 through December 1998 were not disbursed to the state until January 1999. Sections 595.045.3, 476.053, and 561.035, RSMo Cumulative Supp. 1999, require applicable collections to be remitted at least monthly to the state Department of Revenue.

Conditions similar to Parts A-D. were also noted in our prior audit report of the municipal division.

- E. The municipal division has not remitted Peace Officer Standards and Training Commission (POST) fees to the state. The city has collected \$45 in POST fees during the two years ending September 30, 1999. Section 590.140, RSMo Cumulative Supp. 1999, requires collections of POST fees to be remitted at least monthly to the state Department of Revenue.
- F. The court allows defendants to make partial payments on fines and court costs. The court does not maintain adequate control records to account for total amounts owed to the court. Without adequate accounts receivable records, the court cannot effectively monitor and collect monies owed to the court.

WE RECOMMEND the Municipal Division:

- A.1. Record the method of payment on all receipt slips issued and reconcile the composition of receipt slips issued to the composition of deposits.
2. Transmit fines and costs to the city daily or when accumulated receipts exceed \$100.
3. Restrictively endorse all checks and money orders immediately upon receipt

- B. Work with the police department to account for the numerical sequence and ultimate disposition of all parking and traffic tickets and retain all records as required by Supreme Court Administrative Rule 8.
- C. Forward records of convictions on traffic offenses to the MSHP as required by state law. In addition, court files should be reviewed for applicable tickets that should be forwarded to the MSHP.
- D&E. And the city ensure court costs are remitted monthly to the state in accordance with state law.
- F. Maintain adequate account receivable records including signed payment agreements and a control ledger. Periodically the control ledger balance should be reconciled to the balances on the individual payment agreements.

AUDITEE'S RESPONSE

A,B

& F. We agree with these recommendations.

C&D. This has been implemented.

E. We are in the process of turning over these monies.

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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